Centre Number						Candidate Number				
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Other Names										
Candidate Signature										

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
3	
TOTAL	

General Certificate of Education
Advanced Level Examination
June 2010

Applied Business BS15

Unit 15 Financial Accounting for Managers

Wednesday 30 June 2010 1.30 pm to 3.00 pm

For this paper you must have:
- a calculator.

Time allowed
- 1 hour 30 minutes

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- Questions 1(c), 2(c) and 3(c) should be answered in continuous prose. In these questions you will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

Answer **all** questions in the spaces provided.

1 Read **Item A** and then answer the questions that follow.

Item A

Getting started

John worked full time as a carpenter in the building trade. In his spare time, he made high quality wooden toys, such as dolls houses and rocking horses, which he made in a workshop in his garage. Initially, he only made these as presents for his family's children and friends, but other people began to show an interest in buying these toys.

John researched the wooden toy market and discovered that a growing number of parents were interested in buying handmade wooden toys for their children. He was surprised at how much people were prepared to pay for the toys and decided to turn his hobby into a business. He decided to work part time in the building trade and use the rest of his time making and selling wooden toys. He continued to operate from his garage workshop.

The business traded successfully and John received orders for the toys from:

- craft fairs where he rented a stall
- a small local toy shop who agreed to sell his toys.

After six months, *Toy Place Ltd*, a local toy chain retailer, wanted to place an initial order for toys worth £4000 per month. John realised that if he wanted to expand his toy business he would need to work on the business full time. He would rent a larger workshop and employ an assistant to help him.

John considered taking one of the following three options.

Option 1
Continue to work part time to maintain sales of £2000 per month through the craft fairs and the local toy shop. Small amounts of stock would need to be held as the toys are made and sold in the same month. These sales would have a gross profit margin of 50%.

Option 2
Work full time on making toys and set up a website to sell his most popular toys. His research had indicated that this would cost him £1500 to set up but could potentially triple sales to £6000 per month. He would need to hold a stock of these toys as website customers would expect them to be dispatched on the day that they were ordered. These sales would have a gross profit margin of 40%.

Option 3
Work full time on making toys and only sell to *Toy Place Ltd*. This initial order for toys would be worth £4000 per month for six months. If these toys were popular, *Toy Place Ltd* could increase its order to £8000 per month. It would, however, demand 60 days credit on any orders. These sales would have a gross profit margin of 30%.

1 (a) Using examples, explain why John would use different business documents when selling toys to the local toy shop rather than selling at a craft fair.

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Question 1 continues on the next page

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1 (b) Using **Item A**, explain the cash flow problems John might face if he adopts:

Option 2 ....

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Option 3 ....

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1 (c) Which of the three options available to John do you think that he should take?
Use **Item A** to justify your decision.

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2 Read **Item B** and then answer the questions that follow.

Item B

Playtime Ltd – The way forward?

Playtime Ltd is a family run national chain of eight shops that sells educational toys. The business has a reputation based on the quality of its toys and the friendly staff that work in its shops. The toys, however, are expensive and, due to the recession, sales at *Playtime Ltd* have fallen over the past two years.

Figure 1: Extract from forecast profit and loss account for Playtime Ltd

	Forecast figures for 31/03/2011 £	**Actual figures for 31/03/2010 £**
Sales	16 810 000	16 910 000
Cost of sales	(8 900 000)	(8 920 000)
Gross profit	7 910 000	7 990 000
Expenses	(8 780 000)	(8 650 000)
Net profit/loss	(870 000)	(660 000)

The Directors of *Playtime Ltd* decided that action will need to be taken if the business is to survive. They are considering the following options.

Option 1
Close four of the shops and only keep open the more profitable big city shops in Birmingham, Leeds, London and Manchester. This option would initially cost £500 000 but would create savings of £700 000 per year. In addition, the remaining four shops would be refurbished at a cost of £1 000 000.

Option 2
Keep all eight shops open and, to supply them with stock, purchase a central warehouse costing £600 000. It would cost an additional £400 000 for fixtures and fittings and to install a computerised stock control system. These measures would considerably improve efficiency and would enable *Playtime Ltd* to reduce the amount of stock held by 30%. The effect on the forecasted balance sheet, of implementing this option, is shown in **Figure 2** below.

Figure 2: Extract from forecast balance sheet for Playtime Ltd

	31/03/2011 without any changes £	**31/03/2011 with central warehouse £**
Fixed assets	2 250 000	
Stock	3 730 000	2 611 000
Debtors	510 000	510 000
Bank	910 000	410 000
Trade creditors	2 000 000	1 300 000

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2 (a) If the Directors decide to purchase a central warehouse, the fixtures and fittings and computerised stock control system will need to be depreciated at 25% using the straight line method.

Using **Figure 2**, calculate the amount for fixed assets to be shown in the forecast balance sheet for *Playtime Ltd* as at 31/03/2011 with the central warehouse.

Use the space below to show your calculations.

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Amount for fixed assets ....

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2 (b) Using **Item B**, analyse the effect of implementing each of the options on *Playtime Ltd*'s liquidity.

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2 (c) The Directors have decided to implement Option 2.

To what extent do you agree with their decision? Use **Item B** and your answer to **2(b)** to justify your answer.

(12 marks)

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3 Read **Item C** and then answer the questions that follow.

Item C

A bright future for Mothercare?

Mothercare plc is a specialist retailer offering a wide range of clothing, hardware and toys for children and mothers-to-be. In recent years, the business has been growing rapidly both in the UK and internationally.

In June 2007, *Mothercare plc* bought a children's toy chain, the *Early Learning Centre* (*ELC*), for £85 million. The combined group had 435 UK stores and 420 franchised outlets around the world. It was hoped that the purchase of *ELC* would provide *Mothercare plc* with the opportunity to use its increased size to boost future profit margins by driving a harder bargain with suppliers. It would also combine some of the *ELC* stores into its *Mothercare* outlets to save money on rent.

Figure 3: Financial information for Mothercare plc

	31/03/08	**31/03/07**
Current ratio	1.23 : 1	2.21 : 1
Acid test ratio	0.64 : 1	1.36 : 1
Gearing	16.41%	10.13%
Gross profit margin	9.50%	9.61%
Turnover	£676.8 million	£498.5 million
Net profit before tax	£4.5 million	£18.9 million
Net profit margin	0.66%	3.79%
Return on capital employed	1.96%	11.37%
Net assets	£198 million	£151 million
Number of employees	4244	3149

In March 2009, the Chief Executive of *Mothercare plc* was optimistic about the future of the company for the following reasons.

- Despite the recession, people continued to spend on their children.
- Improvements made at *Mothercare*, such as better products and improvements to the stores, made customers more willing to shop there.
- The recession had forced a number of *Mothercare*'s competitors to close.
- Internet sales had increased by 15.6% and accounted for 20% of the company's total turnover.
- The turnover of *Mothercare*'s overseas stores had increased by nearly 50%. These are franchised outlets which require little capital.

Source: FAME, published by Bureau van Dijk

3 (a) Using **Figure 3**, analyse the changes that took place in the financial position of *Mothercare plc* between 2007 and 2008.

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3 (b) Using **Item C**, analyse the possible effect that the purchase of *ELC* could have had on the financial position of *Mothercare plc* in 2008.

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3 (c) To what extent do you agree with the Chief Executive's optimism for the future of *Mothercare plc*? Use **Item C** to justify your answer.

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END OF QUESTIONS

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